

ANNUAL REPORT

**COMMONWEALTH
COMPETITION
COUNCIL**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



**COMMONWEALTH OF VIRGINIA
RICHMOND
1996**

COMMONWEALTH COMPETITION COUNCIL

EXECUTIVE SUMMARY

This annual report is prepared to inform the Governor and the General Assembly of the Commonwealth Competition Council's findings and recommendations for 1996 as required by Section 9-349 of the Code of Virginia. It is also submitted with the expectation that it will be used by agencies and institutions to bring an element of competition into their activities and to ensure a spirit of innovation and entrepreneurship. This competitive spirit will improve the quality, timeliness, and cost-effectiveness of the services they provide to the citizens of the Commonwealth.

Business is not inherently efficient. Competition is a key element for a business to achieve success. A business closely monitors and evaluates its unit costs and services to remain competitive. If the business function or service is not or cannot remain competitive, service shedding is implemented through abolishment, consolidation, outsourcing to other private entities, sale, or spin off of the operation.

As Virginia prepares for the 21st century, practicality dictates that a similar philosophy must take place to ensure that its government continues to be responsive, well managed, and effective in delivering services. Virginia government must focus its mission on customer service satisfaction and forge a closer relationship with the private sector to take advantage of its strengths.

This report demonstrates that the Commonwealth Competition Council emphasized its primary mission in 1996. An institutional framework and competition process were developed for a statewide competition program. This process will encourage innovation and competition within state government. The process seeks effective long-term government solutions for state agencies and institutions by first fostering the need to become internally competitive. The results of a statewide survey of competitive opportunities is summarized in Part II of this annual report. Parts III, IV, V, and VI provide the details of the agency and institution privatization/competition survey submittals. Comments and recommendations from public hearings are included in Part VII.

An integral component of the competition process is the Public-Private Performance Analysis which will help guide agencies and institutions in reaching decisions concerning the continuum of options facing them in the area of competition and privatization. The other essential component of the competition process is the Cost Comparison Program which was automated and provided to state agencies and institutions as a tool to measure and determine the fully allocated cost of services. These steps in the process will ensure decisions will withstand public scrutiny. Confirming the need for the institutional process, at the Council's first Competition Forum successful examples and case studies were provided to state managers on how other government entities became internally competitive and how they overcame obstacles in the quest for cultural change in their organizations.

The Council's statewide public hearings confirmed citizen and business interest in working together to improve government services. It was also made clear that public employees are not against privatization of public services. They do believe, however, that the decision to privatize public services should be scrutinized and a variety of alternatives considered.

The ultimate success in improving the delivery of state services and eliminating the status quo must be supported at the highest levels of government. The Governor and General Assembly must continue to provide the leadership in requiring that all state entities identify the fully allocated cost of all delivered services. The Council will continue to focus on education and training needed to implement the entrepreneurial spirit in the state workforce and to identify innovative areas such as public-private partnerships, employee stock ownership plans, and employee incentive programs which can reduce costs without harming the public good.

The Council's focus is not on privatization versus in-house performance. Rather, the Council is working to further its charge to create a level of competition that will have a lasting impact on the long-term effectiveness of state government. Working together as a team to instill a competitive spirit in the state workforce will bring Virginia government to its highest level of efficiency in the next century.

MEMBERS OF THE COMMONWEALTH COMPETITION COUNCIL

Appointed by the Governor	Mr. John B. Adams, Jr.	<i>Term Ending</i> June 30, 1997
	Mr. Theron J. Bell	June 30, 1999
	Mr. Hudnall R. Croasdale	June 30, 1999
	Mr. Douglas W. Domenech	June 30, 1999
	The Honorable Michael E. Thomas	June 30, 1997
	Ms. Shirley J. Ybarra	June 30, 1997
Appointed by the Senate Committee on Privileges and Elections	Mr. Otis L. Brown, <i>Chairman</i>	June 30, 1998
	The Honorable Walter A. Stosch, <i>Vice Chairman</i>	Coincident with term In Senate
Appointed by the Speaker of the House of Delegates	Mr. Walter P. Conrad, Jr.	June 30, 1998
	The Honorable V. Earl Dickinson	Coincident with term in House of Delegates

STAFF

Mr. Phil K. Bomersheim
Executive Director

Mr. Alan L. Roth
Deputy Director

Ms. Peggy R. Robertson
Executive Assistant

The Council would like to express its appreciation to the following for their continued support

Senate Committee Operations

Mr. Thomas C. Gilman

Ms. Patty J. Lung

Mr. Brian B. Taylor

Division of Legislative Services

Mr. John A. Garka

and

The Department of Motor Vehicles and the Department of Transportation

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**ANNUAL REPORT
OF THE ACTIVITIES, PRIVATIZATION/COMPETITION SURVEY, AND
FINDINGS AND RECOMMENDATIONS
OF THE COMMONWEALTH COMPETITION COUNCIL**

**To
The Governor
and the
General Assembly of Virginia**

Richmond, Virginia

December 1, 1996

I. INTRODUCTION

This is the second annual report of the Commonwealth Competition Council submitted pursuant to § 9-349 of the Code of Virginia. The report is comprehensively designed in seven parts to detail the very active and successful activities of the Council following the Council's first report presented on December 1, 1995.

With the Council's specific goals and objectives established for 1996, this report is prepared to inform the Governor and the General Assembly of the Council's success in communicating its mission, the Competitive Process, as well as the introduction of effective financial instruments to be used in the privatization/competition decision-making process.

Part I of the report is a detailed sequence of activities by the Council and its staff during the period January 1, 1996 to November 30, 1996. The Council and staff participated in numerous business round tables, conducted presentations to a variety of organizations, both public and private, in Virginia and out of state. Four public hearings were held around the state to solicit suggestions from citizens and business interests as to state government functions that should be candidates for privatization and state government functions that should continue to be operated by government.

The Council also conducted its first statewide privatization/competition survey of executive branch agencies and institutions. **Part II** represents a combined summary of the survey data. **Parts III and IV** detail the information provided by agencies and institutions in the format requested by the Council. **Parts V and VI** include the Community College System and other reports submitted in a different format. Public comments and recommendations are included in **Part VII**.

II. PRIVATIZATION/COMPETITION SURVEY

On May 15, 1996, the Council approved a Competition Process which is a systematic approach to determine what government functions and activities are opportunities for both internal and external competition and are potential transfers to the private sector. The Competition Process is shown as Attachment 1. An essential component of the process is an annual survey and inventory of privatization/competition opportunities which was initiated by the Council on June 12, 1996. Ninety-three (93) agencies and institutions received the survey request which is shown as Attachment 2. The survey responses are organized in two groups - state agencies and four-year higher education and affiliated institutions. Each group is divided into three categories:

- Functions and activities transferred to the private sector in Fiscal Year 1996;
- Functions and activities to be transferred to the private sector after July 1, 1996;
- An inventory of potential privatization/competition opportunities for the 1998-2000 budget;
- ☞ Some agencies and institutions reported no activities for one or more categories;

The Council is grateful to all the agencies and institutions that participated in the survey. It should be noted, however, that the following organizations did not respond to this important survey:

Department of Conservation and Recreation
State Board of Elections
Department of Housing and Community Development

Council on Human Rights
Virginia Military Institute

III. COMPETITION FORUM

As a culminating conclusion to the survey, the Council held its first Competition Forum on November 14, 1996 at the Virginia Museum of Fine Arts. With over 100 agency/institution managers in attendance, these managers heard successful lessons learned in *changing the culture of government* from nationally known speakers experienced in implementing privatization/competition programs.

The highlight of the Competition Forum was the introduction, presentation, and distribution of Council's automated Cost Comparison Program, named "COMPETE". The Cost Comparison Program is a vital tool in the privatization/competition decision-making process. The program provides the following information:

- The fully allocated cost of a state function or activity;
- The activity cost of service units of output in a state function;
- A true comparative cost (to level the playing field) of operating a function by government or by the private sector;
- A method by which government functions can be evaluated to determine the functions's ability to become internally competitive;

Based on participant response, the Competition Forum was highly successful and professionally well received. Eighty-one percent of the participants recommended additional forums and a majority requested additional training and information on public-private partnerships, public-private performance analyses, fully allocated costing of state functions, competition training programs, and performance-based contract management.

IV. FINDINGS & OBSERVATIONS

By reference to **Part II** of this report, Combined Summaries of Privatization/Competition Surveys, the following findings and observations are made:

- Agencies and institutions are realizing the service and cost benefits of private sector providers.
- During Fiscal Year 1996, agencies and institutions reported the transfer of 495 general and non-general fund functions to the private sector at an estimated financial gain of \$3,066,358. In addition, the sale of the Virginia Education Loan Authority portfolio and fixed assets generated \$62 million.
- For the current biennium it is estimated that 309 functions will be transferred to the private sector with a potential financial gain of \$10,204,761.
- Privatization opportunities for the 1998-2000 budget include 121 functions with an estimated financial gain of \$32,167,375.

DISCLAIMER: It should be noted that the figures reported by agencies and institutions are not absolute. Many of the state costs are not fully allocated costs and in some cases contract costs are estimates or unknown.

- Of the total 925 functions detailed in this report, only 415 or 45 percent, were indicated to be fully allocated state costs.
- The contractor performance of the 495 functions transferred to the private sector in Fiscal Year 1996 was rated 98 percent satisfactory.
- The top five reasons for transferring state functions to the private sector are:
 1. Improve service and productivity
 2. Reduce the cost of operations
 3. Redirection of state staff to higher priorities
 4. Obtain better trained private staff
 5. FTE loss from the Workforce Transition Act
- The preferred choice of transferring functions to the private sector is contracting out. The second choice is public-private partnerships in which public and private sectors resources are pooled in a joint effort.
- Of the 430 functions listed as potential transfers to the private sector in the current biennium and for 1998-2000, agencies and institutions indicated that they would compete with the private sector in only 37 competitions, or 9 per cent.

V. RECOMMENDATIONS

The information and data in this report should be used as an instrument for improving the quality, delivery, and reducing the cost of government services. The details provided by the agencies and institutions for the 1998-2000 biennium are valuable information for developing the 1998-2000 budget. It is recommended that the 1998-2000 privatization/competition opportunities be listed for planning purposes in Part IV of the Appropriation Act.

It is recommended that the Council's Cost Comparison Program, "COMPETE", be used by agencies and institutions to determine the fully allocated costs of state functions to effectively compare state costs with private sector costs.

It is further recommended that extensive training on how to be internally competitive be provided to agencies and institutions. An employee incentive and employee security program should be implemented to reward employees when their efforts to become internally competitive reap financial benefits to the Commonwealth. A *viable cost effective* incentive program is vital to influence the knowledge and experience of the workforce to maximize the benefits of the workforce to achieve optimal performance.

VI. CONCLUSIONS

In searching for effective long term government solutions, the Council believes that its activities, this annual report, and future similar reports will provide a basis for quality and cost effective delivery of government services to the citizens of the Commonwealth.

The Council's mission, competitive process, and financial programs have attracted inquiries and visitations from other governmental entities. States that are considering privatization/competition programs have requested information from the Council. The United States General Accounting Office conducted a three day on-site interview in Richmond to discuss the program with Council members, staff, and agency management. The GAO report is expected to highlight the comprehensive approach to competition and privatization in Virginia state government. Virginia's reputation for efficient government will be further enhanced as the Council continues to provide leadership in cooperation with the Governor and General Assembly in developing an institutional framework for a statewide competition program.

Respectfully submitted,

Otis L. Brown, *Chairman*
Walter A. Stosch, *Vice Chairman*
John B. Adams, Jr.
Theron J. Bell
Walter P. Conrad, Jr.
Hudnall R. Croasdale
V. Earl Dickinson
Douglas W. Domenech
Michael E. Thomas
Shirley J. Ybarra